

both the General Partners and the Independent General Partners.

Equitable Capital may in the future seek an order from the SEC permitting the officers and employees of Equitable Capital to invest in the equity securities of Portfolio Companies in which the Funds have made or propose to make an Enhanced Yield Investment. If such an order were issued, of which event there can be no assurance, a conflict of interest might arise from the fact that the Funds' investment in the Portfolio Company would largely be comprised of debt while the investment of the officers and employees of the Funds' Managing General Partner and Investment Adviser would be in equity securities. In order to mitigate this conflict of interest, such officers and employees, in addition to such restrictions, if any, imposed by the SEC, will not purchase more than 1% of any class of equity security issued by a Portfolio Company. The Funds are registered under Section 12(g) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and are subject to the periodic reporting requirements of Section 13 of the Exchange Act. The Funds are therefore required to disclose certain subsequent developments affecting the operations of the Funds in filings made with the SEC, such as SEC approval of an exemptive application allowing the officers and employees of Equitable Capital to invest in the equity securities of Portfolio Companies. Limited Partners may obtain copies of the Funds' public reports from the Fund Administrator.

4. *Allocation of Management Time and Services.* The Funds will not have independent management or employees and will rely upon Equitable Capital and the Administrator and their affiliates for management and administration of the Funds and their assets. The requirement that each Fund, as a business development company under the Investment Company Act, make available significant managerial assistance to Portfolio Companies the securities of which constitute at least 70% of the assets of the Fund will impose an additional burden on Equitable Capital as Investment Adviser to the Fund. Equitable Capital and the Administrator believe that they and their affiliates have or can attract sufficient personnel to discharge all their responsibilities to the Funds. Conflicts of interest may arise in allocating management time, services or functions between the Funds and other entities for which Equitable Capital and the Administrator and their

affiliates provide services. The officers, directors and employees of Equitable Capital and the Administrator and their affiliates will devote such time to the affairs of the Funds as they, in their sole discretion, determine to be necessary for the conduct of the business of the Funds.

5. *Timing of Disposition of the Funds' Investments.* Equitable Capital has an interest in the Profits and Losses of each of the Funds as set forth under "Distributions and Allocations." Equitable Capital's interests may in some cases be inconsistent with the interests of the Limited Partners with respect to the timing of disposition of the Funds' investments.

6. *Timing of Repayment of Debt Financing.* Equitable Capital has an interest in the timing of repayments of the Enhanced Yield Fund II's debt financing. Although high interest rates and low yield on investments might otherwise motivate the Enhanced Yield Fund II to prepay debt, to the extent that available cash of the Enhanced Yield Fund II would be used to prepay debt, less cash would be available for making any Incentive Distribution to Equitable Capital in a given period.

7. *Incentive Allocation.* The fact that Equitable Capital's Incentive Distribution with respect to each Fund is based on the performance of such Fund may create an incentive for Equitable Capital to make investments that are more speculative than would be the case in the absence of an incentive allocation, a factor that will be somewhat tempered because losses will reduce such Fund's performance and Equitable Capital's Incentive Distribution.

8. *Other Relations with Portfolio Companies.* Equitable Capital or its affiliates may have other relationships (including investment relationships) on an ongoing basis with Portfolio Companies. Such relationships could influence Equitable Capital to take actions, or forbear from taking actions, which an independent managing general partner might not take or forbear from taking.

9. *Lack of Separate Representation.* The Funds and Equitable Capital will, from time to time, be represented by the same legal counsel which counsel may represent the Funds and/or Equitable Capital and Equitable

Affiliates with respect to the acquisition and management of Enhanced Yield Investments.

## **DISTRIBUTIONS AND ALLOCATIONS**

### **General**

Distributions of each Fund's cash from current return on investments and capital transactions, and allocations of taxable income and gains and losses are governed by Article Four of its Partnership Agreement. Such provisions are complex and should be reviewed with care in their entirety by prospective investors. The summary set forth below is qualified in its entirety by the detailed provisions of the Partnership Agreement, including definitions contained therein, to which reference is hereby made and the form of which appears as Exhibit A to this Prospectus.

All cash distributions to Limited Partners whose subscriptions were solicited by MLPF&S will be credited to such Limited Partners' customer securities accounts maintained with MLPF&S. Other Limited Partners and Limited Partners who choose not to have their distributions credited to their accounts will be given the opportunity to so instruct the Administrator.

### **Distributable Cash from Investments**

Cash receipts of a Fund (other than certain extraordinary receipts, such as Capital Contributions, proceeds of any loan, disposition of investments (other than the interest component thereof), Compensatory Payments (defined below) or returns of capital on investments) are applied, together with any funds withdrawn from reserves, (a) to pay the cash expenses of obtaining such cash receipts, (b) to pay principal of and interest on loans to such Fund (in the case of Enhanced Yield Fund II), (c) to pay other costs and expenses incident to the holding and managing of such investments or the operation and management of such Fund, (d) to pay the Fund Administration Fee, (e) to pay the Investment Advisory Fee, (f) ordinary annual legal fees and related expenses in excess of \$100,000 and extraordinary legal and related expenses, and (g) to pay, or allocate to reserves established to pay, taxes, insurance, debt service (in the case of the Enhanced Yield Fund II), management fees, and

other expenditures of such Fund of the type described in (a) through (f) above. Such cash receipts and amounts withdrawn from reserves remaining after the applications provided for in clauses (a) through (g) are defined in detail in the Partnership Agreement as "Available Cash from Investments". Available Cash from Investments in excess of the Federal Tax Allowance (as defined in the Partnership Agreement) may, in the discretion of the Managing General Partner, and subject to review by the Independent General Partners, be applied to pay or to reserve for Follow On Investments within the limitations set forth above under "Investment Objective and Policies -- Ongoing Management Support; Follow On Investments". Available Cash from Investments not applied to Follow On Investments or reserves therefor together with the Compensatory Payments (as defined below) made by the Managing General Partner, is defined as "Distributable Cash from Investments", will be distributed quarterly by such Fund, within 45 days after the end of the calendar quarter, to its Partners, as described below. To the extent the Enhanced Yield Fund II has incurred indebtedness, the Investment Company Act prohibits distributions to its Partners unless the ratio of its assets to such indebtedness and the principal amount of any guarantee by the Enhanced Yield Fund II of obligations of third parties is at least 2:1 at the time of the distribution. Further, all of the deductions from cash receipts described in (a) through (g) above, the amount of Federal Tax Allowance and the amounts applied to Follow On Investments will be allocated to the sources set forth in (a) and (b) below and the remaining cash proceeds will be distributed:

(a) From Enhanced Yield Investments:

(1) first, to the Partners of such Fund, 99% to the Limited Partners, as a class, and 1% to the Managing General Partner of such Fund, until the Limited Partners, as a class, have received from distributions then, or theretofore made by such Fund, of Distributable Cash from Investments and Distributable Capital Proceeds from Enhanced Yield Investments (as defined below) (other than from a return of capital), an amount equal to the sum of (a) the aggregate annual (cumulative but not compounded) return of 10% per annum on the average daily amount of the Gross Capital Contributions represented by

Enhanced Yield Investments (as defined below) (the "Priority Return") and (b) any outstanding Compensatory Payment;

(2) second, 70% to the Limited Partners of such Fund, as a class, and 30% to the Managing General Partner (29% being an Incentive Distribution) until the Managing General Partner has received, from all distributions then or therefore made by such Fund of Distributable Cash from Enhanced Yield Investments and Distributable Capital Proceeds from Enhanced Yield Investments (other than from a return of capital), 20% of all such distributions, except that if there are any outstanding Deferred Distribution Amounts (as defined below), such distribution will first be made solely to the Managing General Partner until such amounts are distributed to it; and

(3) third, thereafter 80% to the Limited Partners of such Fund, as a class, and 20% to the Managing General Partner (19% being an Incentive Distribution).

(b) From all other sources (other than from a return of capital) including

(i) Temporary Investments; and

(ii) Other sources not included in (a) above;

99% to the Limited Partners of such Fund, as a class, and 1% to the Managing General Partner.

"Compensatory Payments" consist of the cumulative amount by which the cumulative net proceeds received from Capital Transactions related to Enhanced Yield Investments made by such Fund are less than such Fund's cost of such Investments, but only to the extent of the excess of cumulative Incentive Distributions previously received by the Managing General Partner from such Fund over Compensatory Payments previously made.

The amount of "Net Capital Contributions represented by Enhanced Yield Investments" with respect to a Fund is calculated to be the portion of the total cost of

such Fund's outstanding Enhanced Yield Investments provided by the Capital Contributions of the Partners. With respect to the Enhanced Yield Retirement Fund II, which may not borrow to fund investments, this portion generally will equal 100% of such total cost reduced by the portion of such cost, if any, paid from reinvested income or gains of the Fund. Such amount is calculated assuming that, (i) with respect to the Enhanced Yield Fund II, outstanding leverage, if any, and (ii) with respect to each Fund selling commissions, financial advisory fees, sales and marketing expenses and organizational and offering expenses incurred or otherwise paid by the Fund are each allocated proportionately to all such investments. The amount of "Gross Capital Contributions represented by Enhanced Yield Investments" with respect to a Fund is the Net Capital Contributions represented by Enhanced Yield Investments for such Fund, grossed up for the related selling commissions, financial advisory fees and the full amount of any discount on such fees and the full amount of any discount on selling commissions, marketing and sales expenses and organizational and offering expenses to such Fund. The Priority Return of each Fund will be computed from the date of such Fund's Initial Closing. After the Initial Closing and prior to the Final Closing (if more than one Closing occurs), only Limited Partners admitted at any prior Closing and the Managing General Partner will be entitled to share in distributions made with respect to income earned between the date of the Closing at which they were admitted and any subsequent Closing. It is possible that there will not be sufficient earnings as of the date of any subsequent Closing to permit Limited Partners admitted at a prior Closing to receive the full amount of the cumulative Priority Return to date. Any cumulative Priority Return which is in excess of earnings as of a subsequent Closing and which is subsequently paid out of earnings accrued after a subsequent Closing will be shared by all Limited Partners, including those admitted at the subsequent Closing, pro rata in accordance with the number of Units held by such Limited Partners.

#### **Capital Proceeds**

All cash receipts of a Fund from any "Capital Transaction" (which is generally defined in the Partnership Agreement to include disposition of investments, return of capital on investment, in the case of the Enhanced Yield Fund II, refinancing of an Enhanced Yield

Investment after the expiration of the Investment Period or any applicable Reinvestment Period or liquidation of such Fund, or events not in the ordinary course of such Fund's business) are applied as follows:

(a) first, in order of priority provided by law, or any applicable agreement or undertaking of such Fund to:

(i) payment of all amounts required to be disbursed in connection with such Capital Transaction;

(ii) payment of all debts and obligations of such Fund then due related to the particular Capital Transaction;

(iii) creation of reasonable cash reserves for and provide for the payment of the taxes, debt service, brokerage fees and/or other costs, expenses and liabilities related to the Capital Transaction or the assets affected thereby;

(iv) payment of all other debts and obligations of such Fund then due, other than to any Partner; and

(v) creation of reasonable cash reserves for the payment of any costs, expenses or liabilities of such Fund; and

(b) second, to payment of all debts and obligations of such Fund to any Partners.

The balance, which is defined in the Partnership Agreement as "Available Capital Proceeds" to the extent in excess of the Federal Tax Allowance may, in the judgment of the Managing General Partner, subject to the review of the Independent General Partners of such Fund, be applied to Follow On Investments. Further, the principal of an Enhanced Yield Investment or Temporary Investment liquidated during the 36-month Investment Period may be applied, as to original invested capital, but not capital appreciation, to additional Enhanced Yield Investments or Temporary Investments ("Additional Investments"), within the applicable Reinvestment Period. Available Capital Proceeds not applied to or set aside as reserves for Follow On Investments or Additional Investments, which is

defined as "Distributable Capital Proceeds", will be distributed as soon as practicable after such Capital Transaction, as follows:

(a) From Enhanced Yield Investments:

(1) first, 99% to the Limited Partners of such Fund, as a class, and 1% to the Managing General Partner of such Fund, until the Limited Partners, as a class, have received from all distributions then or theretofore made by such Fund, of Distributable Cash from Enhanced Yield Investments, and Distributable Capital Proceeds from Enhanced Yield Investments, an amount equal to the Priority Return and any outstanding Compensatory Payments;

(2) second, to the Managing General Partner, and the Limited Partners of such Fund, as a class, until each class of Partners has received from cumulative distributions from Enhanced Yield Investments the portion of their Net Capital Contributions represented by Enhanced Yield Investments then or theretofore liquidated and not reinvested plus the Priority Return and any outstanding Compensatory Payments, except that if there are any outstanding Deferred Distribution Amounts, such distribution will, to the extent permitted by the related Partnership Agreement, first be made solely to the Managing General Partner until such amount is distributed to it;

(3) third, 70% to the Limited Partners of such Fund, as a class, and 30% to the Managing General Partner (29% being an Incentive Distribution) until the Managing General Partner has received, from all distributions then or theretofore made by such Fund of Distributable Capital Proceeds from Enhanced Yield Investments, and Distributable Cash from Enhanced Yield Investments, 20% of all distributions (other than from a return of capital); and

(4) fourth, thereafter 80% to the Limited Partners, as a class, and 20% to the Managing General Partner (19% being an Incentive Distribution).



(b) From all other sources, including:

(i) Temporary Investments, and

(ii) Other sources not included in (a) above;

(1) first, to the Managing General Partner and the Limited Partners of such Fund, as a class, until each class of Partners of such Fund has received from cumulative distributions other than distributions from Enhanced Yield Investments the portion of their Net Capital Contributions represented by Temporary Investments then or theretofore liquidated and not reinvested; and

(2) second, 99% to the Limited Partners of such Fund, as a class, and 1% to the Managing General Partner.

The Limited Partners' Net Capital Contribution is such Partners' Capital Contribution net of organizational and offering expenses, selling commissions, financial advisory fees and sales and marketing expenses paid by the applicable Fund. Distributions to Limited Partners will be allocated among the Limited Partners in proportion to the number of Units held by each such Partner.

To the extent that making any Incentive Distribution from the proceeds of Capital Transactions would result in the Managing General Partner's receiving cumulative Incentive Distributions from such Fund in excess of 20% of the cumulative capital gains realized by such Fund (net of realized capital losses and unrealized net capital depreciation), the amount of such distribution will instead be deferred (the "Deferred Distribution Amount").

#### Allocation of Profits and Losses

The profits and losses of each Fund for federal income tax purposes, including each item of income, gain, loss, deduction or credit (defined in the Partnership Agreement as "Profits" and "Losses"), are to be determined as of the end of, and within 75 days after the end of, each year.

(a) Profits of a Fund other than Liquidation Profits are generally allocable as follows:

first, to each Partner of such Fund who has received or is scheduled to receive distributions in the aggregate (exclusive of any distributions representing a return of capital) in excess of the amount of Net Profits previously allocated to such Partner, to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners;

second, to each Partner of such Fund having an excess of his Deemed Distribution Amount over the Capital Account of such Partner (determined after giving effect to any allocation of Profit and any scheduled distributions taken into account under clause first above and, in the case of the Managing General Partner, including an amount equal to the outstanding principal amount of any MGP Notes), to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners; and

third, to the Partners in proportion to the positive balances in their Capital Accounts (determined after giving effect to any allocation of Profit and any scheduled distributions taken into account under clauses first and second above and, in the case of the Managing General Partner, including an amount equal to the outstanding principal of any MGP Notes).

A Partner's "Deemed Distribution Amount" is the amount such Partner would receive as a distribution (reduced by the amount of any distribution then scheduled to be made to such Partner) if all assets of the applicable Fund were sold as of such date for an amount equal to the amount at which such assets were carried on the books of such Fund maintained in accordance with federal income tax accounting principles, adjusted to reflect any appreciation of such assets entered on the books of the Fund at the time of sale of limited partner interests to any Limited Partner at a premium over \$1,000, and the proceeds applied in accordance with Sections 4.1 and 4.2 of the related Partnership Agreement assuming that no reserves described in Section 4.2A(1)(a)(iv) of its Partnership Agreement are required other than reserves for which such

Fund has claimed or is currently entitled to claim a federal income tax deduction or loss and assuming that all Deferred Distribution Amounts are distributed to the Limited Partners.

(b) Losses of the Partnership other than Liquidation Losses are generally allocable as follows:

first, to each Partner who has been allocated Net Profit in excess of the aggregate amount of distributions received or scheduled to be received by such Partner (exclusive of any distribution representing a return of capital), to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners;

second, to each Partner having an excess in its Capital Account (determined after giving effect to any allocation of Loss and any scheduled distributions taken into account under clause first above and, in the case of the Managing General Partner, including an amount equal to the outstanding principal of any MGP Notes) over the Deemed Distribution Amount to such Partner, to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners;

third, to the Partners to the extent of and in proportion to the positive balance in the Capital Accounts of all such Partners (determined after giving effect to any allocation of Loss and any scheduled distributions taken into account under clauses first and second above and, in the case of the Managing General Partner, including an amount equal to the outstanding principal amount of any MGP Notes); and

fourth, the balance, if any, to the Managing General Partner.

Losses generally will not be allocated to any Partner to the extent such allocation of Losses would cause or increase a deficit in the Capital Account of a Limited Partner or a deficit in the Capital Account of the Managing General Partner in excess of the outstanding principal amount of any MGP Notes to the Fund.

(c) Liquidation Profits and Losses shall be allocated among the Partners as follows:

Liquidation Profits shall be allocated among the Partners:

first, to each Partner having an excess of its Deemed Distribution Amount over the Capital Account of such Partner (in the case of the Managing General Partner, such Capital Account including an amount equal to the outstanding principal amount of any MGP Notes), to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners; and

second, the balance, if any, to the Partners in proportion to the balances in their Capital Accounts (determined after giving effect to any allocation of Profit under clause first above and, in the case of the Managing General Partner, including an amount equal to the outstanding principal amount of any MGP Notes).

Liquidation Losses of the Partnership shall be allocated among the Partners:

first, to each Partner having an excess in its Capital Account (in the case of the Managing General Partner, such Capital Account including an amount equal to the outstanding principal amount of any MGP Notes) over the Deemed Distribution Amount of such Partner, to the extent of such excess and in accordance with the ratio that such excess bears to the aggregate excess of all such Partners;

second, to the Partners to the extent of and in proportion to the positive balance in the Capital Accounts of all such Partners (determined after giving effect to any allocation of Loss under clause first above and, in the case of the Managing General Partner, including an amount equal to the outstanding principal amount of any MGP Notes); and

third, the balance, if any, to the Managing General Partner.

The Funds intend to file an application for an exemptive order of the Securities and Exchange Commission with respect to the proposed procedures which would be applicable in the event of distributions of investments of the Funds upon liquidation or the removal of Equitable Capital as Managing General Partner of a Fund. Such an application for an exemptive order would be filed by the Managing General Partner and the Funds as soon as practicable after a decision to liquidate or remove the Managing General Partner is made. Under such application, in the event of such distribution or upon the removal of Equitable Capital as the Managing General Partner of a Fund and continuation of such Fund, its investments will be valued pursuant to the procedures described under "Summary of the Partnership Agreement -- Removal of the General Partners". All unrealized gains or losses shall be deemed realized at such removal date for purposes of computing the Incentive Distribution. Pursuant to Section 6.3 of the Partnership Agreement, in the event of the removal of Equitable Capital as Managing General Partner, Equitable Capital will then receive a final allocation with respect to its Incentive Distribution based upon such valuations and will become a Limited Partner with respect to its remaining interest in such Fund. No distribution to the Managing General Partner of a final allocation of Profits and Losses will be made upon the liquidation or removal thereof prior to the receipt of such exemptive order. No assurance can be given that such exemptive order will be granted. The Funds are registered under Section 12(g) of the Exchange Act and are subject to the periodic reporting requirements applicable to such registrations. Pursuant to such requirements, the Funds are required, among other things, to disclose certain subsequent developments affecting the operations of the Funds, such as SEC approval of such exemptive relief. Limited Partners may obtain copies of the Funds' public reports from the Fund Administrator. In the event that such exemptive relief is not granted in the form applied for by the Funds, the Managing General Partner shall not receive a final allocation of Profits and Losses and its interest shall convert to that of a Limited Partner, and the removed Managing General Partner shall continue to receive those distributions to which it is entitled as a Limited Partner under the Partnership Agreement.

## **Special Distributions and Allocations**

In addition to the Profit and Loss allocations described above, the Partnership Agreement of each Fund provides for a number of special allocations. These special allocations generally are intended to comply with various provisions of certain tax regulations. In addition to the distributions provided for above, to the extent that the per Unit Capital Accounts of Limited Partners whose Units were purchased at different Closings differ in amount, one or more special cash distributions may be made to certain Partners so as to equalize the per Unit Capital Accounts of all Limited Partners.

Special allocations of taxable Profits and Losses may be made to reflect unrealized appreciation that is in a Fund at the time of admission of a new Limited Partner and that is subsequently realized by such Fund.

Investment and other cash returns earned prior to the Final Closing will be allocated and distributed to those Partners who were Partners at the time such income was earned.

In order to equalize per Unit Capital Accounts of Limited Partners of a Fund whose Units were purchased at different prices at any Closing due to the discounted commissions payable to MLPF&S, the total selling commission and financial advisory fee expense (of up to 6% and 1 1/2%, respectively, of the public offering price per Unit) will be specially allocated to each Limited Partner's Capital Account so as to reflect the actual amount of such commission and financial advisory fee related to such Units paid by such Fund to MLPF&S.

Furthermore, to the extent a tax withholding payment is required to be made by a Fund with respect to Units of a Limited Partner, distributions to such Limited Partner will be correspondingly reduced.

### **Determination of Distributions and Allocations Among Limited Partners**

Except as described above, all distributions of Distributable Cash from Investments and Distributable Capital Proceeds to, and allocations of Profits and Losses among, the Limited Partners of a Fund will be made in the ratio which the number of Units held by each Limited

Partner of such Fund bears to the total number of Units held by all such Limited Partners.

Except as described above, all Distributable Cash from Investments and Profits and Losses of a Fund not arising from a Capital Transaction will be distributed or allocated, as the case may be, to the persons shown on the records of such Fund to have been Partners as of the last day of the fiscal quarter for which such distribution or allocation is to be made.

With certain exceptions, all of a Fund's Distributable Capital Proceeds will be distributed, and all Profits and Losses arising from such Capital Transaction shall be allocated, to the persons shown on the records of such Fund to have been Partners as of the date of such Capital Transaction.

#### **TRANSFERABILITY OF UNITS**

##### **General**

Limited Partners' interests in a Fund will be recorded in the books and records of such Fund as provided by Delaware law. No transfer or assignment of a Limited Partner's interest in such Fund will be effective except to the extent made in accordance with the provisions of the Partnership Agreement. Sales, transfers or assignments of interests in a Fund will be recognized quarterly.

Units will not be represented by any certificates or other instruments, but nonetheless are transferable upon submission to the Managing General Partner of duly executed transfer documentation in form and substance acceptable to the Managing General Partner. Except for sales, transfers or assignments by Tax-Exempt Investors, certain gratuitous transfers and transfers incident to divorce, no sale, transfer or assignment of a Limited Partner's Units in the Enhanced Yield Fund II may be made without the consent of the Managing General Partner, which consent will not be unreasonably withheld.

##### **Restrictions**

No sale, assignment or transfer that would result in the transferor or any transferee holding less than one Unit will be recognized for any purpose without

the consent of the Managing General Partner, which consent will be granted only for good cause. In no event may any Units be assigned to a minor or incompetent, except in trust, pursuant to the Uniform Gifts to Minors Act or by will or by intestate succession, or to a person who is a market maker in securities unless such person certifies that it is purchasing the Units solely for investment purposes and not for resale. Units in the Enhanced Yield Fund II may not be sold or otherwise transferred to Tax-Exempt Investors. Except in cases of death of a transferor or operation of law, as a condition of transfer, each transferee must certify that he, she or it satisfies the investor suitability standards described in this Prospectus and, in the case of the Enhanced Yield Fund II, that he, she or it is not, and is not purchasing on behalf of, a Tax-Exempt Investor. See "Offering and Sale of Units -- Investor Suitability Standards".

The term "Units" includes for purposes of the transferability restrictions described below any units of limited partnership interest in the Funds sold in an offshore offering to a foreign investment fund or other entity formed for the purpose of investing in the Funds. See "Foreign Offering". No sale, transfer or assignment or negotiation of a Unit in a Fund will be recognized or effective if such sale, transfer, assignment or negotiation, together with all other such transfers on the books of such Fund during the immediately preceding 12 months, would result in the transfer of 40% in the case of the Enhanced Yield Fund II, or 50% in the case of the Enhanced Yield Retirement Fund II, or more of Units in such Fund. See "Certain Federal Income Tax Considerations -- Termination of the Fund for Tax Purposes". A Limited Partner may not transfer a Unit unless he, she or it represents and provides other documentation satisfactory in form and substance to the Managing General Partner that such transfer was not effected through a broker-dealer or matching agent which makes a market in Units or which provides a readily available, regular and ongoing opportunity to holders of Units to sell or exchange their Units through a public means of obtaining or providing information of offers to buy, sell or exchange Units. In the case of the sale of a Unit in the Enhanced Yield Fund II, the Managing General Partner must determine that such sale, assignment or transfer will not, by itself or together with any other sales, transfers or assignments, "substantially increase the risk of" such Fund being classified as a publicly traded partnership. In the case



of the sale of a Unit in the Enhanced Yield Retirement Fund II, the Managing General Partner must determine that such sale, assignment or transfer would not, by itself or together with any other sales, transfers or assignments, "likely result in" such Fund being classified as a publicly traded partnership. A transferor will not be required to make the representations described above if he, she or it represents that the transfer is effected through an agent whose procedures have been approved by the Managing General Partner as consistent with the requirements for avoiding classification as a publicly traded partnership. In addition, no sale or other transfer of a Unit of a Fund will be recognized if such sale or transfer, together with all other such transfers during the same taxable year of a Fund would result in the transfer of more than 4.5% (5% in the case of the Enhanced Yield Retirement Fund II) of Units in such Fund, disregarding any Safe Harbor Transfers described below. However, if Units in a Fund are transferred pursuant to a matching service described below, such transfers may be permitted subject to a separate 9.5% (10% for the Enhanced Yield Retirement Fund II) limitation described below, subject to the condition that no more than 1.5% (2% for the Enhanced Yield Retirement Fund II) of Units in such Fund will be transferred in any one taxable year (disregarding transfers pursuant to such matching service and Safe Harbor Transfers described below).

For purposes of the limitations described in the preceding paragraph, the following transfers ("Safe-Harbor Transfers") will be disregarded: (i) transfers in which the basis of the partnership interest in the hands of the transferee is determined, in whole or in part, by reference to its basis in the hands of the transferor or is determined under Section 732 of the Code; (ii) transfers at death; (iii) transfers between members of a family (as defined in Section 267(c)(4) of the Code); (iv) the issuance of interests by or on behalf of the partnership in exchange for cash, property, or services; (v) distributions from a retirement plan qualified under Section 401(a) of the Code; and (vi) block transfers. In addition, for purposes of the 1.5% (2% for the Enhanced Yield Retirement Fund II) limitation, transfers through a matching service will be disregarded if (i) at least a 15 calendar day delay occurs between the day the matching agent receives written confirmation from the listing customer that an interest in a partnership is available for sale (the "contract date") and the earlier of (A) the

day information is made available to potential buyers regarding the offering of such interest for sale, or (B) the day information is made available to the listing customer regarding the existence of any outstanding bids to purchase an interest in such partnership at a stated price; (ii) the closing of the sale effected through the matching service does not occur prior to the 45th calendar day after the contact date; (iii) the listing customer's information is removed from the matching service within 120 calendar days after the contact date; (iv) following any removal (other than removal by reason of a sale of any part of such interest) of the listing customer's information from the matching service, no interest in the partnership is entered into the matching service by such listing customer for at least 60 calendar days; and (v) the sum of the percentage interests in partnership capital and profits represented by partnership interests that are sold or otherwise disposed of other than in Safe-Harbor Transfers during the taxable year of the partnership does not exceed 9.5% (10% for the Enhanced Yield Retirement Fund II) of the total Units in the Fund. The term "block transfer" means the transfer by a Partner in one or more transactions during any thirty calendar day period of partnership interests representing in the aggregate more than 5 percent of the total interest in partnership capital or profits.

Sales, transfers, assignments or negotiations the recognition and effectiveness of which are so suspended and deferred will be recognized (in chronological order to the extent practicable) when, and to the extent that, such recognition will not result in there having been transfers of in excess of the permitted percentage, as applicable, in interest of such Fund and will not likely result in, or substantially increase the risk of, reclassification as a publicly traded partnership. The Managing General Partner has the authority to amend the transferability provisions of either Partnership Agreement to the extent necessary or desirable (or to eliminate or amend provisions to the extent no longer necessary), to preserve the tax status of the Funds as partnerships or, in the case of the Enhanced Yield Retirement Fund II, to preserve certain exemptions under ERISA.

To ensure compliance with federal statutory limits on alien ownership of certain media and communications companies that are Portfolio Companies, see "Regulation -- Communications Act", no sale, transfer or assign-

ment of a Limited Partner's Units will be recognized or effective if the Managing General Partner determines that such sale, assignment, or transfer would, by itself or together with any other sales, transfers or assignments, cause the Partnership or any such Portfolio Company to be in violation of applicable alien ownership limits, including the terms of any FCC ruling or order obtained by the Fund, such as the ruling requested in the FCC Petition. See "Risk and Other Important Factors -- Partnership and Contractual Risks" and "Regulation".

In connection with any sale, exchange, transfer or assignment the Managing General Partner may, in its discretion, require an opinion of counsel satisfactory in form and substance to the Managing General Partner that such sale, exchange, transfer or assignment would not result in a termination of a Fund for purposes of Section 708 of the Code (see "Certain Federal Income Tax Considerations -- Termination of a Fund for Tax Purposes"), cause such Fund to lose its status as a partnership or to be classified as a publicly traded partnership and be taxable as a corporation for federal income tax purposes or violate any federal securities laws or any state securities or "blue sky" laws, including investor suitability standards thereunder or cause a Fund or any media or communications company that is a Portfolio Company and is subject to the alien ownership limits in Section 310(b) of the Communications Act to be in violation of Section 310(b), any of the FCC's rules, regulations or policies adopted thereunder or any FCC order or ruling obtained by a Fund.

Any sale or transfer of Units in California or involving a California resident or of Units originally purchased by a California resident requires the prior written consent of the Commissioner of Corporations of the State of California, except as provided in the Commissioner's Rules. The Subscription Agreement will bear the following legend:

**"IT IS UNLAWFUL TO CONSUMMATE A SALE OR TRANSFER OF THIS SECURITY, OR ANY INTEREST THEREIN, OR TO RECEIVE ANY CONSIDERATION THEREFOR, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMMISSIONER OF CORPORATIONS OF THE STATE OF CALIFORNIA, EXCEPT AS PERMITTED IN THE COMMISSIONER'S RULES."**

Any sale or transfer of Limited Partners' Units outside California and not involving California residents or involving Units not originally purchased by a California resident does not require the prior written consent of the Commissioner of Corporations of the State of California.

It is intended that no public market for Units develop. The Managing General Partner intends to use its best efforts to implement the transfer restrictions contained in the Partnership Agreement so that no public market develops. The ability of a market to develop will be limited by restrictions on trading provided in each Partnership Agreement for the purpose of preventing a Fund from being classified as a publicly traded partnership taxable as a corporation. See "Certain Federal Income Tax Considerations -- Recent Legislation". Limited Partners therefore may not be able to liquidate their investment in a Fund in the event of an emergency or for any other reason. Moreover, the lack of a public market may affect the price for which a Limited Partner would be able to sell his, her or its Units. MLPF&S may provide limited investor services which may assist Limited Partners desiring to sell their Units but will not value any Units. Accurate information as to the actual market value of a Unit at any given date may not be available. MLPF&S will not be able to solicit any potential buyers of Units but may solely afford a matching service to sellers and potential buyers. MLPF&S's services, if rendered, will be made available only to Limited Partners who have established an account with MLPF&S. MLPF&S will not receive any compensation from the General Partners or either Fund for providing such investor services nor will MLPF&S impose any charge for such investor services on selling Limited Partners who maintain accounts with MLPF&S. MLPF&S is under no obligation to provide any investor service and if provided, such services may be terminated at any time. In connection with any sale of Units which are arranged by MLPF&S in the performance of such investor services, MLPF&S will receive a fee. At present, in comparable transactions, MLPF&S generally charges the buyer a commission equal to 7% of the proceeds to the seller, but such fee may vary from time to time. The General Partners do not intend to redeem or repurchase Units although they reserve the right to do so under the conditions specified in the Investment Company Act.

## **Assignees**

The assignee of a Unit in a Fund does not become a Limited Partner by virtue of such assignment, and obtains no rights other than the right to receive distributions from such Fund and allocations of the income, gains or losses of such Fund. A purported sale, assignment or transfer of a Limited Partner's Units which has been approved by the Managing General Partner will be recognized by such Fund when it has received written notice of such sale, assignment or transfer in form satisfactory to the Managing General Partner, signed by both parties, containing the purchaser's, transferee's or assignee's acceptance of the terms of the Partnership Agreement, a power of attorney consistent with Section 13.1 of the Partnership Agreement and a representation by the parties that the sale or assignment was lawful. Such sale or assignment will be effective as of the first day of the quarter following the fiscal quarter in which such notice is filed with such Fund and is recognized. The assignee of Units who does not become a Limited Partner and desires to make a further assignment of such Units is subject to all of the restrictions on transferability of Units described in this Prospectus and the Partnership Agreement.

In the event of the death, adjudication of incompetence or bankruptcy of a Limited Partner, his, her or its legal representatives will have all the rights of a Limited Partner for the purpose of settling or managing his, her or its estate and such power as the decedent, incompetent or bankrupt Limited Partner possessed to assign all or any part of his, her or its interest in such Fund and to join with such assignee in satisfying conditions precedent to such assignee's becoming a substituted Limited Partner.

## **Substituted Limited Partners**

No Limited Partner has the right to substitute an assignee as a Limited Partner in his place. The Managing General Partner has the right in its sole discretion to permit an assignee to become a substituted Limited Partner, and any such consent by the Managing General Partner is binding and conclusive without the consent or approval of any Limited Partner. In any event, such consent shall be given only if the assignee

executes and acknowledges such instruments as the Managing General Partner deems necessary or desirable to give effect to such substitution. The substituted Limited Partner shall pay all reasonable expenses, including attorneys' fees, incurred by a Fund in connection with such substitution of the Limited Partner.

#### **SUMMARY OF THE PARTNERSHIP AGREEMENT**

Each Fund has been formed as a limited partnership under Delaware law pursuant to a Certificate of Limited Partnership filed with the Secretary of State of the State of Delaware on September 28, 1989, as heretofore amended, and will be governed by the related Partnership Agreement. The form of the Partnership Agreement is included in full as Exhibit A to this Prospectus. It is recommended that each prospective purchaser read it carefully in its entirety.

Certain provisions of the Partnership Agreement have been described elsewhere in this Prospectus. With regard to the management of the Funds and the fees and payments to be made to the Managing General Partner, the Administrator and their affiliates, see "Management Arrangements"; with regard to various transactions by and relationships of the Funds with the Managing General Partner and its affiliates, see "Conflicts of Interest"; with regard to the transfer of Units, see "Transferability of Units" and "Risk and Other Important Factors"; with regard to the distribution and allocation of income, gains or losses, see "Distributions and Allocations"; and with regard to reports to be made to the Limited Partners, see "Reports".

The following is a brief summary of certain portions of the Partnership Agreement not described elsewhere in the Prospectus. All statements made below and elsewhere in this Prospectus relating to the Partnership Agreement are qualified in their entirety by reference to the Partnership Agreement. Capitalized terms used herein without definition shall have the meanings set forth for such terms in the form of Partnership Agreement.

## **Fund Capital**

### **General**

No Partner shall be entitled to interest on any Capital Contribution to a Fund or on such Partner's Capital Account. (The term "Capital Account" generally refers to the amount of a Partner's Capital Contribution to a Fund, plus his share of such Fund's profits, reduced by his share of such Fund's non-deductible expenditures, losses and distributions.) Except as otherwise provided in the Partnership Agreement, no Partner has the right to withdraw, or to receive any return of, his Capital Contribution.

### **No Requirement for Additional Capital Contributions**

The Managing General Partner is authorized to admit Limited Partners to a Fund in the manner and subject to the conditions set forth in this Prospectus. No Limited Partner, as such, will be required or authorized to make any additional Capital Contributions to a Fund. See "Liability of Partners to Third Parties" below and "Risk and Other Important Factors" -- "Partnership Contractual Risks: Repayment of Certain Distributions". Under the Partnership Agreement, the Managing General Partner will make a contribution to the capital of each Fund in the form of MGP Notes. The principal amount of such note will be reduced in proportion to the aggregate amount of Limited Partners' Capital Contributions returned to Limited Partners.

### **The General Partners**

#### **Term and Election**

The General Partners of each Fund will consist of the Independent General Partners and the Managing General Partner. General Partners will hold office until their withdrawal or removal pursuant to the terms of the Partnership Agreement or until a successor has been elected at any meeting of Limited Partners. The Limited Partners may elect a successor to a removed General Partner prior to or as of the effective date of such removal by the written consent or affirmative vote of a majority in interest of the Limited Partners (subject to

the condition described under "Voting Rights of Limited Partners -- Limitations on Voting Rights" below).

The authorized number of Independent General Partners of a Fund shall be fixed from time to time by such Fund's Independent General Partners then in office. However, the authorized number of Independent General Partners of a Fund shall not, except prior to the initial public offering of Units, be fewer than two or more than nine. A majority of the General Partners of a Fund shall at all times be Independent General Partners. If at any time the number of Independent General Partners of a Fund is less than a majority of the General Partners, the Independent General Partners of such Fund shall, within 90 days thereafter, designate one or more successor Independent General Partners so as to restore the number of Independent General Partners to a majority of the General Partners. Any successor Independent General Partner shall hold office until his resignation, incapacity or removal or until his successor has been elected at any meeting of Limited Partners. In the event that no Independent General Partners of a Fund remain, the Managing General Partner shall, within 90 days, call a meeting of Limited Partners of such Fund for the purpose of electing Independent General Partners.

#### *Authority*

The General Partners of each Fund shall have exclusive management and control of the business of such Fund, and shall have the authority, on behalf of such Fund, to do all things which, in their sole judgment, are necessary or appropriate to carry out their duties, except as the Partnership Agreement may expressly limit such powers. Subject to the supervision of the Independent General Partners, the Managing General Partner shall have the power and authority to manage the business and affairs of such Fund. The Independent General Partners by majority vote shall have the power and authority to approve or disapprove (i) each Bridge Investment and (ii) any Mezzanine, Other, or Follow On Investment in a Managed Company or Non-Managed Company which does not meet the applicable Guidelines prior to investment by such Fund in such investment.



### **Removal of the General Partners**

The Partnership Agreement provides that the Independent General Partners of a Fund may be removed either (i) for cause by the action of at least two-thirds of such Fund's remaining Independent General Partners, (ii) subject to Section 11.2 of the Partnership Agreement, by failure to be re-elected by such Fund's Limited Partners at any meeting of such Partners called for the purpose of electing General Partners or (iii) subject to Section 11.2 of the Partnership Agreement, with the consent of a majority in interest of such Fund's Limited Partners. The Managing General Partner of a Fund may be removed (i) by a majority of such Fund's Independent General Partners, (ii) subject to Section 11.2 of the Partnership Agreement, by failure to be re-elected by such Fund's Limited Partners at any meeting of such Partners called for the purpose of electing General Partners or (iii) subject to Section 11.2 of the Partnership Agreement, with the consent of a majority in interest of such Fund's Limited Partners. The provisions of Section 11.2 of the Partnership Agreement are summarized under "Limitations on Voting Rights" below.

The Funds and the Managing General Partner intend to file an application for an exemptive order of the SEC concerning proposed procedures in the event that the Managing General Partner is removed. Such an exemptive order would be filed by the Managing General Partner and the Funds as soon as practicable after a decision to liquidate or remove the Managing General Partner is made. Under such application, in the event of the removal of the Managing General Partner of a Fund and the continuation of such Fund, the investments of such Fund at the time of removal shall be appraised by two independent appraisers, one selected by the removed Managing General Partner and one selected by the Independent General Partners of such Fund. In the event such two appraisers are unable to agree on the value of such Fund's investment portfolio, they shall jointly appoint a third independent appraiser whose determination shall be final and binding. The cost of such third appraiser will be borne equally by such Fund and the removed Managing General Partner. All unrealized capital gains and losses of such Fund would be deemed realized at that time solely for purposes of making a final allocation to the removed Managing General Partner. With respect to the allocation of its Incentive Distributions (i.e., the